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Property Tax and Assessment News from Around the World

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Property tax not just aimed at taming home prices in China

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There is already a tax system for activities related to real estate in China, with 10 types of taxes, including tax on the use of arable land, land value-added tax and deed tax. But the structural problem with the tax system is that it doesn't add much to the costs of holding onto a property.

The closely watched property tax is now in place only on a limited scale and narrow basis.

Other than the two cities - Shanghai and Chongqing - where a limited property tax has been implemented as a pilot scheme since 2011, the country still abides by the provisional regulations on real estate tax enacted in 1986, according to which individuals' not-for-business homes are exempt from property tax. Even in the case of the two pilot cities, the taxable items mostly include newly purchased homes, which are taxed purely on the value of one-time transactions. The pilot scheme also uses low tax rates.

In light of this, China's property tax reform is supposed to essentially focus on addressing the structural issue with the existing tax system, by tilting the taxation toward a property tax levy.

In specific terms, this means a combination and modification of the current taxes levied on property development and transactions so as to lower the tax burden on the flow of new homes and second homes. Additionally, strengthened efforts will be required to push for taxes on holding a property, which means an extension of the pilot scheme into the wider region, the broadening of the tax base to include the stock of existing homes, and also the availability of dynamic assessment of property values. The experience of developed economies has shown property taxes in countries such as the US, UK, France and Japan contribute more than 10 percent to government coffers.

The property tax push, nonetheless, would require some complementary efforts. First, the nation should ramp up property tax legislation given that tax can only be backed up by the authority of the law. For instance, the existing provisional regulations are administrative rules rather than part of a law. A bill for a property tax is only being drafted now, and according to the nation's legislative procedures - which include the submission, review and passage of a bill - the announcement and implementation of the game-changing bill will not take place until after 2020. And according to the principles proposed by Finance Minister Xiao Jie, the pilot scheme is unlikely to be expanded substantially prior to the passage of the bill.

Second, the administrative overlap and a complex galaxy of rules and regulations that the property tax bill is supposed to rely on should be well handled. The property tax reform involves the Ministry of Land and Resources, the Ministry of Housing and Urban-Rural Development, the Ministry of Finance, the State Administration of Taxation and the Legislative Affairs Office of the State Council, among others. There needs to be a clear division of tasks and coordinated efforts among different government departments as well as efforts to comb through the existing rules to ensure the new bill can build on the stock of existing laws and regulations.

China also needs to push ahead with a series of institutional reforms. For example, a national registration platform for property has been in place across the country since the end of last year. In the next step, a system for property valuation should be established. Also, reforms should be compatible with each other. For example, property tax reform should be linked with income distribution and individual tax reform to allow taxation to play a role in adjusting income. In this case, the US individual income tax system - in which those with high incomes pay more and those with low incomes can receive refunds after paying their taxes - can serve as a reference.

Having said that, the reform is intended to foster the property sector over the longer term.

The collection of property tax is not directly aimed at controlling home prices, as shown by the experience of other countries, in which property tax has only played a small role in curbing home prices. It could even be the case that the tax would push up home prices when there is a shortage of supply. The property tax reform is supposed to result in an improvement to the fiscal and taxation system and make taxes truly a wealth and resources adjustment tool so as to serve as a boon for both the property sector and the economy at large.

The levying of a property tax would raise the cost of holding a property and thus squeeze out speculative home purchasing. It would also help to reduce vacancy rates, and push vacant homes into the home rental market. On top of that, the property tax would help to shore up local government coffers, even if it might take a long time to make a difference in this regard.

Property Tax In China By 2019?

If you are an ordinary Chinese person with money to invest, you don’t have a lot of choices. It’s difficult to get your money out of the country, while the stock market, wealth management products (WMPs), and new investment schemes such as peer-to-peer (P2P) lending may potentially offer great rewards but definitely bring great risks.

Meanwhile, there is no tax on real estate. If you buy an apartment — even if it sits empty — it does not cost anything. It’s the safest store of value available to ordinary people. This is a major factor in the perpetually bubbly state of the housing market, the huge numbers of vacant apartments, and the famous “ghost cities.” Although there has been talk of a property tax for many years, there has been little action aside from a few experiments in local markets. That might be about to change, judging by this Sohu report:

At this morning’s press conference at the annual political gathering known as the Two Sessions, Vice Finance Minister Shi Yaobin 史耀斌 told reporters that his ministry and other government departments were “drafting and improving the real estate tax law,” while former Finance Minister Lou Jiwei 楼继伟 said that a draft bill may be reviewed by the legislature this year.

One important detail that has not yet been worked out: How will the value of property be assessed — based on appraisal, market value, or some other indicator?

Local governments will collect and have the benefit of property taxes.

The Party’s biggest worry is, I believe, that a property tax will be an excessive new burden on ordinary households whose only major investments are in real estate.

A possible solution mentioned in the Sohu article is leaving the first 160 square meters of a person's property tax-free, but placing a levy on floor space in excess of that and on additional real estate owned by the same person.

"A property tax is a potential game-changer for a real estate industry sometimes called too big to fail for the Chinese and world economies," says Bloomberg.

Whatever the government decides to do will be felt in the pocket by a majority of China's huge population, and all the companies and commodities that comprise the real estate economy. Property tax might not be a sexy subject, but it's big!
China moves closer to implementing a game-changer: a property tax

The rumors are true: China's government looks poised to implement a property tax in an attempt to slow the explosive rise in home prices.

Vice finance minister Shi Yaobin said Wednesday that officials are working on a tax, and that Beijing will look at other countries for inspiration.

While property taxes are the primary source of revenue for local governments across the U.S., they are a rarity in China. Two cities, Shanghai and Chongqing, are currently testing property taxes, but only on second homes or luxury properties.

Shi said the new countrywide system could be based on either appraised or market value, Bloomberg reported. UBS Group estimates that it will be implemented no earlier than 2019.

Real estate comprises almost 75 percent of assets for Chinese citizens but is also a factor in some of the largest booms and busts in the country, with investors eager to pour money into housing and mortgage lending skyrocketing over the past two years.

The lack of a property tax dates back to the country's Communist takeover in 1949, when owning land was at first restricted and then banned. China has also historically had a hard time figuring out who owns what properties, but its Ministry of Land and Resources said in September it had compiled a land ownership database

China Gets Closer to Game-Changing Property Tax

China said a bill for a property tax is being drafted, moving a step closer to a levy that could help tame runaway home prices.

Officials are working on the measure, Vice Finance Minister Shi Yaobin said in a Wednesday briefing in Beijing during the annual meeting of the National People's Congress. Former Finance Minister Lou Jiwei told reporters that a draft bill may be reviewed by the legislature this year.

A property tax is a potential game-changer for a real estate industry sometimes called too big to fail for the Chinese and world economies. As President Xi Jinping rolls out measures to try to stabilize the housing market, including a push for rental homes, Standard Chartered Plc has called a levy the "missing piece" of China's bubble-fighting toolkit.

China is looking at taxes in other nations, but will devise the levy based on its own situation, with the possibilities including a tax based on appraisal value, or market value, Shi said.

Currently, the Shanghai and Chongqing municipal governments are trialing taxes, charging for ownership of a second residential home, or a highly-priced home.

While NPC spokesman Zhang Yesui said Saturday that accelerating efforts toward a property tax is a "crucial" task for the Communist Party, UBS Group AG estimates the implementation may be in 2019 at the earliest.
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The property tax push, nonetheless, would require some complementary efforts. First, the nation should ramp up property tax legislation given that tax can only be backed up by the authority of the law. For instance, the existing provisional regulations are administrative rules rather than part of a law. A bill for a property tax is only being drafted now, and according to the nation's legislative procedures - which include the submission, review and passage of a bill - the announcement and implementation of the game-changing bill will not take place until after 2020. And according to the principles proposed by Finance Minister Xiao Jie, the pilot scheme is unlikely to be expanded substantially prior to the passage of the bill.

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Don't Bet Your House on China's Property Tax Just Yet

Ignore the noise. You might not think so from the headlines, but China's long-delayed property tax is probably still at least three years away.

The concept of a levy on homeowners collected by local authorities is certainly gaining currency. Premier Li Keqiang said China "will steadily push forward legislation" in his annual report to the National People's Congress on Monday. The tax may be based on appraisal value, Vice Finance Minister Shi Yaobin said on Wednesday. Former Finance Minister Lou Jiwei said a draft bill may be reviewed by the legislature this year.

Taxing homeowners has the potential to tame housing prices and provide a more stable and reliable income stream for local governments, helping to control debt, fund social programs and alleviate a wealth gap that's been exacerbated by the nation's 13-year property boom The current system, in which local authorities raise revenue by selling land to developers, is unsustainable: It's unpredictable, and creates a systemic incentive to push real estate prices ever higher.

Regular levies on property ownership are already common throughout the capitalist world, and look like an inevitable funding route one day for China's local governments, whose debt woes are no secret. That doesn't mean a tax will be easy to implement.

Chinese households have most of their wealth tied up in real estate, with some estimates putting the country's residential stock at $44 trillion, according to the South China Morning Post. Taxing that is sure to prove contentious.

Those who have benefited most from the existing system, acquiring multiple properties, stand to be hurt the most and can be expected to push back the hardest. What's the betting that local government officials themselves may be among those with a vested interest in preserving the existing system?

There's also a plethora of technical questions, such as whether to base the tax on market value or original purchase price, both of which present their own problems. Many people live in homes bought from state-owned employers in the past for small amounts; revaluing those properties at current market values will be painful.

Shanghai and Chongqing already have some form of property tax, but targeted at only a segment of the market. Shanghai's applies only to second-home purchases, while Chongqing taxes only the most expensive homes.

Still, the real reason a property tax will remain just talk for now is that Beijing is dealing with too many more pressing issues. The central government is fighting what its own leaders have called three years of "critical battles." These involve punishing targets for curbing pollution, tackling poverty and bringing down financial risk -- while keeping GDP growth at 6.5 percent.

China's real estate market is already slowing. A property tax that further cools the industry -- a critical component of the economy -- would make those challenges harder to achieve. This is also a sensitive time to be tinkering with town and city finances, with Beijing having already restricted borrowing by local-government financing vehicles, a key funding conduit.

That takes us to 2021, at the earliest. Investors certainly don't appear overly concerned: Property stocks are the best performers on the Shanghai Composite Index this week, rising more than 2 percent.

Former Finance Minister Lou said on Tuesday that there may be a second or even a third review of the tax if the draft draws many suggestions. Expect that bill to be stuck in committee for some time to come.

Time for a China property tax

Beijing should move ahead with a real estate levy while cutting other burdens on business

Amid talk of presidential term limits, growth targets and combating pollution and corruption, taxes have quietly emerged as a key issue for China's National People's Congress.

Premier Li Keqiang promised on Monday to cut taxes and fees for businesses. This could provide an important source of economic stimulus at a time when overcapacity reductions, deleveraging and measures to reduce financial risk are weighing on growth. Yet Beijing cannot just slash taxes. To put the real estate market on a sounder footing, it is also vital that officials move ahead with implementing a property tax after years of inconclusive discussion.

Li's pledge on business taxes was partly prompted by the recent reduction in the U.S. corporate income tax rate to 21% from 35%. In China, the standard corporate tax rate is 25% but that is compounded by value-added taxes of up to 17%.

While headline tax rates for Chinese companies may not appear too far out of line, World Bank statistics show that some 67.3% of Chinese corporate profits go to taxes. This compares with 48.3% in the U.S. and a global average of 40.5%. The heavy burden on the Chinese corporate sector is mainly due to mandatory employer contributions for employee pension funds, housing support and medical, unemployment and disability insurance.

Until now, repeated pledges to lower the tax burden have had little impact. The authorities last year promised to cut the tax burden on corporations by 1 trillion yuan, mainly through VAT reform, but VAT revenues actually rose 8%.

Li said in his address to the congress that China's three VAT brackets will be consolidated into two, with the manufacturing and transportation sectors in particular in line for cuts. He added that mandatory employer contributions will be reduced too.

While their heavy tax burden handicaps the competitiveness of Chinese companies in the global market, government subsidies complicate the picture. State-owned enterprises in particular receive large subsidies from every level of the Chinese government in the name of industrial policy. This support has prompted growing complaints from trade partners, including anti-dumping and anti-subsidy investigations by the U.S.

Beijing should consider scaling back industrial subsidies to ease trade tensions. While the details of Li's tax cut plan are unclear, the authorities should look at giving relief to all companies by lowering the top VAT rate to 13% from 17% and trimming overall mandatory employer contributions to around 30% of employee salaries from above 40% over several years. Cutting business taxes and subsidies at the same time would minimize the impact on the country's fiscal balance.

As with reduced corporate rates, the introduction of a national property tax system has long been on the official agenda. Since 2011, the cities of Shanghai and Chongqing have been collecting property taxes in pilot tests. Shanghai's tax applies to second-home purchases while Chongqing's covers just high-end residences.

Following remarks by President Xi Jinping at the Communist Party Congress in October that "houses are for living in, not for speculation," Finance Minister Xiao Jie a month later said that the government aimed to push through property tax legislation by 2019. Premier Li affirmed on Monday that a law is under preparation.

China's real estate tax levy to consider own conditions, practices of other countries

China will develop its real estate tax system on the basis of thorough consideration of domestic conditions and practices in other countries, a senior finance official said Wednesday.

Real estate tax is a common practice taken by many countries with the aim to boost fiscal revenue while readjusting income distribution for social fairness, Deputy Finance Minister Shi Yaobin told a press conference.

In many countries, the real estate tax is levied on industrial, commercial and individual properties in accordance with respective assessed values; tax reduction is granted to low-income and disadvantaged groups; the tax is levied by local governments for public services purposes.

Shi said the finance ministry and the national legislature will take reference of these common practices during the drafting of the real estate tax law.

He added that China's own specific conditions will also be considered, such as necessary integration of some other taxes, and the reduction of tax burdens on the real estate development and trade.

China will prudently advance legislation on real estate tax, according to the government work report released Monday.

The Budgetary Affairs Commission of the National People's Congress (NPC)Standing Committee and the Ministry of Finance are jointly drafting the law, and debate on important issues and internal consultations are underway, Shi said.

Property tax progressing, advisers say

Political advisers have identified some of the key areas for legislators drawing up China's first property tax, including who will set the rates.

The legislation, under discussion for several years, is seen as an essential part of the structural reform to improve local governments' tax systems, Liu Shangxi, head of the Chinese Academy of Fiscal Sciences, said on Saturday.

"The legal framework is expected to clarify whether provincial governments will be able to determine their own tax rates" based on local conditions, said Liu, who is a member of the National Committee of the Chinese People's Political Consultative Conference.

He said decisions are also expected on how much of the tax will go to a local government's coffers, as well as who is expected to pay—all homeowners or just those with multiple properties.

Liu suggested making property tax a type of regulation tax, meaning that it would only start to be levied on individuals after they have acquired a certain number of properties, pushing them over a threshold, which would save housing resources and narrow the gap between rich and poor.

"Property tax is necessary now, but everything should wait until the draft legislation," he added.

The Chinese government is working on a long-term mechanism to support stable and healthy development of the property market, to push forward structural reform and prevent potential risks.

Liu Shijin, former deputy head of the State Council's Development Research Center, has predicted local authorities will probably have relatively large discretion over tax rates and collection.

Issues of public concern will be considered during the legislative process and reasonable solutions will be found, Liu, a CPPCC National Committee member, told Securities Times.

Xiao Jie, the finance minister, wrote in a People's Daily article that China's property tax will be a crucial part of the next phase of reform.

"The tax will be charged based on assessed values of commercial and industrial properties, as well as personal residential housing," he said.

Louis Kuijs, head of Asia economics for Oxford Economics, said putting property tax on the legislative agenda in 2018 could mean introducing it in parts of the country in late 2019 or 2020.

"While we think a property tax is important as a stable revenue source for local governments, the initial rate is likely to be set fairly low," he said.

Fleeting relief for China’s homeowners as property tax inches its way through legislature

However, to levy property tax is “indisputable”. It is only about timing and details, says party newspaper

A controversial property tax appears unlikely to materialise in China this year, delivering temporary relief to households and real estate owners with an estimated US$44 trillion of their wealth invested.

The Chinese legislature's budgetary unit is "studying the key issues of the property tax, and soliciting internal opinion, before submitting the draft for initial review," said Zhang Yesui, spokesman of the National People's Congress, at a press conference in the Chinese capital before the start of the parliamentary meeting.

As the initial review is the very first among a series of steps before the final legislation is passed and implemented, the slow process means the property tax is unlikely to be enacted in 2018, property analysts said.

"A typical piece of legislation involves seven steps and we are just at the first," said Liu Jianwen, a law professor at Peking University. The process involves "internal deliberation and drafting, after which there will be a draft for public consultation, and three rounds of professional reading, so it will be a long way away."

China property tax based on 'appraisal value', with legal process to be in place by 2019

A tax on property holdings, by far the biggest investment for Chinese households, would be controversial as it has the potential to weigh on property prices.

Finance Minister Xiao Jie got a taste of the controversy last December when he said in the Communist Party's mouthpiece newspaper People's Daily that a tax based on the appraised value of homes would be implemented, completing the work on every piece of legislation by 2019. After an uproar in the media, the paper had to clarify that the minister's words were misinterpreted.

The growth pace of China's home prices topped the world in 2017, with Chinese cities occupying seven spots among the world's 10 fastest-growing residential markets, according to data by the Hurun Report. Wuxi, a city of 6.4 million people in eastern China's Jiangsu province, reported the fastest surge in prices, with home values rising 60 per cent in two years. Chinese cities Hefei, Guangzhou, Xiamen, Zhengzhou, Nanjing and Huizhou round out the remainder in the world's top 10, according to Hurun.

Still, the property tax is not off the books entirely, as Premier Li Keqiang outlined during his Monday work report that the government would "steadily push forward the legislation of property taxes," without elaborating.

The ruling party's mouthpiece newspaper weighed in on the controversy, reporting that the question remains "when and how to collect the tax," not whether the tax would be implemented, according to the overseas edition of People's Daily.

China aims to keep property market stable in 2018

China aims to pursue "stable and healthy development" of the property market in 2018 with an increased focus on providing affordable housing and developing the rental market, Premier Li Keqiang said in a government work report released on Monday.

"China will maintain the position that homes are for living in, not for speculation," the report said, adding it will continue to adopt a differentiated approach on property policy, which suggests the government will continue to crack down on speculation to prevent bubble risks while destocking inventories in some smaller cities.

Rampant speculation has stoked prices and raised concerns of a sharp correction. The authorities have introduced a flurry of cooling measures since early 2016 in the latest round of speculative buying.

China's top leadership, however, has stressed the need to avoid sharp price fluctuations, concerned about their impact on the world's second-largest economy.

Average new home prices in China's 70 major cities rose 5 percent in January from a year earlier.

The government should take steps to contain the frothy home markets in tier-two and tier-three cities in particular, Yang Weimin, a deputy director at the Office of the Central Leading Group on Financial and Economic Affairs, was quoted as saying by the Securities Times on Sunday.

“We can neither let the bubbles burst nor let it grow bigger,” Yang said.

But the government will support people’s legitimate needs for housing, the work report said, adding it will step up efforts to provide public rental housing, cultivate the rental market and push for the development of shared-ownership homes.

China has also been pumping credit into a home-revamping project to improve housing conditions for the poor. People were often given financial compensation to buy existing homes in the city after their shantytown dwellings were dismantled, in part contributing to a price surge in smaller cities.

Li said in the work report that China plans to revamp 5.8 million shantytown homes in 2018, after investing a total of 1.84 trillion yuan ($290.6 billion) to upgrade more than 6 million homes in the previous year.

A notable difference in this year’s report is the lack of emphasis on destocking the housing glut in tier-3 and tier-4 cities, which some analysts say reflects a more cautious stance as prices have risen sharply in some smaller cities as inventories fell.

The report also said China would steadily push for a property tax law this year. China is “accelerating efforts” on a draft law on property tax, Zhang Yesui, spokesman for the National People’s Congress, told a press briefing on Sunday.

Zhang said China’s tax reforms, including the introduction of a property tax, are expected to be completed by 2020.

China has considered a property tax for more than 10 years, but the idea of a tax has met with push back from stakeholders including local governments who heavily rely on land sales as a key source of financing.

Pilot tax schemes were introduced in cities such as Shanghai and Chongqing but the slow progress to roll it out nationwide has drawn criticism as prices continue to rise.

Critics say that in the absence of a property tax, short-term government measures are not capable of altering a deep-seated market perception that home prices will rise perpetually and that officials will never let the market fall, a view that has fuelled speculative purchases over the years.

Liu Shijin, vice chairman of state think tank the China Development Research Foundation, told Reuters that he thinks property tax legislation will likely “pick up pace” in the coming years.

Buzz about expected property tax grips housing market; experts allay fears

For more than a decade, property tax has been regarded by speculative investors as a Pandora's box一once levied, it could lead to many unforeseen situations, pushing home prices this way or that. Or so they believed.

However, industry insiders said property tax is merely a policy to help preserve the sanctity and function of home as a dwelling unit and prevent housing from becoming a tool for out-and-out speculative investments.

In a bylined article published in People's Daily on Dec 20, Finance Minister Xiao Jie wrote about the need for a legislative process to introduce gradually a real estate tax, and also establish a thorough modern real estate taxation system later.

Xiao's article sparked market speculation that real estate tax is nigh. Shanghai-based The Paper.cn reported that the issue of whether or not this year's National People's Congress meeting would deliberate the draft for property tax legislation is attracting a lot of market attention.

For, the legislation can kick off only after deliberations by the NPC. The annual two sessions that started on Saturday and will end later this month, may provide more information, according to media reports that quoted Jia Kang, former head of the Finance Ministry's research department, as saying.

The property tax will be collected at the regional tax, giving local governments the right to determine the tax rate and related measures, Liu Shijin, former deputy head of the State Council's Development Research Center and also member of the 13th National Committee of the Chinese People's Political Consultative Conference (CPPCC), was quoted as saying by the Securities Times.

Fiscal and tax reforms are expected to emerge as buzzwords during this year's two sessions, or the annual meetings of the NPC and the National Committee of the CPPCC.

Tax reforms will likely be accelerated this year at both national and local levels. A unified taxation law will help facilitate China's economic growth, said Huang Jianhui, head of the research department of China Minsheng Bank, in an interview to the China Securities Journal.

Zhou Jing, head of project sales, JLL Shanghai, a property consultancy, said, "Since the first batch of macro control policies on China's property market was launched in 2006, the possibility of a fresh property tax has arisen again and again every time home prices needed cooling down."

In January 2011, Shanghai and Chongqing became the only two cities to levy property tax. However, the property tax trial yielded meager results.

In Shanghai, the tax is collected only from families whose housing area is more than 60 square meters per person. It is taxed at a rate of 0.4 percent or 0.6 percent of the total property price annually, depending on the apartment's price per sq m.

In Chongqing, the trial tax is focused more on taming investment speculation in high-end properties, with the rate set between 0.5 percent and 1.2 percent of the property price annually.

Like other Chinese cities, the two cities' real estate prices have continued to rise in the past seven years.

"Owing to the low rate for taxation, 100 million yuan ($15.8 million) to 200 million yuan tax collected can hardly cover the taxation regime's operational expenses," said Lu Wenxi, a researcher from property consultancy Centaline Shanghai.

"The tax on property needs to be prudent as it is closely connected with people's daily life," said Yan Yuejin, research director at the E-House China R&D Institute.

Yan said people who live in their properties need not worry that the anticipated tax will affect their lives. From a long-term perspective, real estate tax will help regulate the housing market better, preventing speculative investments, he said.